SaskTel

Financial Statements of

DIRECTWEST CORPORATION

December 31, 2006

DirectWest Corporation (DirectWest)

www.directwest.com

DirectWest, a wholly owned subsidiary of SaskTel, has been publishing telephone directories in Saskatchewan for almost 50 years. The business has evolved to include new media opportunities and expanded into the internet market, the specialty publishing market, and the independent phone directory market outside Saskatchewan. DirectWest publishes and distributes 10 telephone directories across Saskatchewan, and provides these directories online at Saskatchewan's leading internet portal: www.mysask.com. In addition to consistently generating value through their print and online directories, the company continues to add new services and solutions for their customers including web site development, online advertising, e-mail marketing, e-commerce and specialty publications.

In early 2007, DirectWest acquired the remaining interest of The Phone Book Company Partnership and now publishes and distributes 5 telephone directories in Alberta. Further expansion will occur in 2007 in Manitoba through DirectWest Canada, a wholly-owned subsidiary of DirectWest. DirectWest's head office is in Regina, with a second office in Saskatoon. The company employs over 120 people in Saskatchewan.

President's Message

DirectWest's focus is to be the leader in bringing buyers and sellers together through both print and online advertising mediums. 2006 was a year of accelerated growth for us, due to rapid expansion of the independent directories business supplemented by strong growth in Internet Business Solutions and good growth in SaskTel Phone Books.

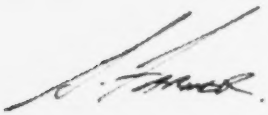
Our first directories were published in Edmonton and Grande Prairie and we acquired a directory business for Medicine Hat that also published its first DirectWest directory in 2006. In both Calgary and Winnipeg, we entered the market, opened offices, and launched sales of the first issues. As a result our revenues increased by 13.6% to $42.2 million in 2006. We are confident these strategic investments are positioning the company for continued growth and increased profits in years to come.

The Canadian directory publishing sector continued to change and grow at a rapid pace in 2006. Competitive publishers have continued to move into new markets with directory start-ups, as well as acquiring the operations of smaller publishers across the country.

In Saskatchewan, our market share rose in 2006 to exceed 98%. We also met or exceeded all our targets for directory quality and customer performance measurements. As well, internet traffic continued to grow and the www.mysask.com internet portal continued to set usage records.

Looking forward, the directory publishing sector in Canada is expected to continue its dynamic growth trend, and to become more competitive. Independent publishers will continue to grow more rapidly than incumbent telco publishers, which will give DirectWest opportunities for further expansion. DirectWest's Saskatchewan directory business is relatively mature, but we still expect to achieve modest growth in this area and maintain our leadership position. Technology will play an increasing role, providing growth opportunities for DirectWest but also creating additional types of competition. We anticipate our Internet Business Solutions area will continue to innovate and generate growth. We will also continue to seek expanded markets and additional sources of revenue.

In closing, I would like to thank our dedicated employees and management team, and especially our customers for providing us with the strong position from which we anticipate strong growth in 2007.



Gord Farmer
President, DirectWest

KPMG

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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of DirectWest Corporation as at December 31, 2006 and the consolidated statements of operations, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 9, 2007

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

Consolidated Statement of Operations

For the year ended December 31, (Thousands of dollars)	2006	2005
Gross revenue	$42,174	$37,121
Cost of sales	9,649	7,828
Gross profit	32,525	29,293
Operating expenses	31,279	27,080
Income from operations	1,246	2,213
Interest income	48	41
Non-controlling interest	279	89
Net income	$1,573	$2,343

See accompanying notes

Consolidated Statement of Deficit

For the year ended December 31, (Thousands of dollars)	2006	2005
Deficit, beginning of year	($901)	($1,135)
Net income	1,573	2,343
	672	1,208
Dividends	(1,416)	(2,109)
Deficit, end of year	($744)	($901)

See accompanying notes

Consolidated Statement of Financial Position

As at December 31, (Thousands of dollars)	2006	2005
Assets		
Current assets		
Cash and short-term investments (Note 4)	$1,341	$2,642
Accounts receivable	2,870	2,456
Inventory	185	148
Prepaid publishing costs	7,905	7,111
Prepaid expenses	68	61
	12,369	12,418
Property, plant and equipment (Note 5)	1,038	1,482
Intangible assets (Note 6)	1,089	1,107
Goodwill	503	503
	$14,999	$15,510
Liabilities and shareholder's equity		
Current liabilities		
Bank indebtedness	$478	$330
Accounts payable and accrued liabilities	2,127	2,103
Dividends payable	-	334
Deferred revenue	3,549	3,989
	6,154	6,756
Non-controlling interest	152	218
Shareholder's equity		
Share capital and contributed surplus (Note 7)	9,437	9,437
Deficit	(744)	(901)
	8,693	8,536
	$14,999	$15,510

See accompanying notes

On behalf of the Board:

Robert Watson

Mike Anderson

Consolidated Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2006	2005
Operating activities		
Net income	**$1,573**	$2,343
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	**1,211**	1,070
Other	**(65)**	(89)
Net change in non-cash working capital (Note 8)	**(1,481)**	(293)
Cash provided by operating activities	**1,238**	3,031
Investing activities		
Property, plant and equipment expenditures	**(506)**	(669)
Investments, net of cash acquired	**(311)**	(1,237)
Cash used in investing activities	**(817)**	(1,906)
Financing activities		
Dividends paid	**(1,870)**	(2,270)
Decrease in cash during the year	**(1,449)**	(1,145)
Cash and cash equivalents, beginning of year	**2,312**	3,457
Cash and cash equivalents, end of year	**$863**	$2,312
Comprised of:		
Cash	**$215**	$553
Short-term investments	**1,126**	2,089
Bank indebtedness	**(478)**	(330)
	$863	$2,312

See accompanying notes

Notes to the Consolidated Financial Statements

Note 1 – Organization

The Corporation markets and supplies print and on-line telephone directories, internet advertising, marketing and business solutions in Saskatchewan and certain locations in Alberta and Manitoba. The Corporation also markets and supplies specialty publications throughout Canada.

The Corporation is wholly owned by Saskatchewan Telecommunications Holding Corporation (Holdco) through its subsidiary SaskTel Investments Inc. and the financial results are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 – Significant accounting policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Subsidiaries

The consolidated financial statements include the accounts of the Corporation and its subsidiaries with all significant intercompany transactions and balances being eliminated.

The following is a summary of the operating entities of the Corporation:

	Percentage ownership	Basis for inclusion
DirectWest Canada, Inc. (formerly 3364381 Canada Ltd.)	100.0%	Consolidation
The Phone Book Company Partnership	85.0%	Consolidation

Qu'Appelle Holding, Inc. is a non-operating entity of the Corporation.

Short-term investments

Short-term investments represent interest bearing investments with Holdco and financial institutions that are due on demand and are stated at cost which approximates market value.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Prepaid publishing costs

The Corporation defers expenses that are directly related to its publications, including printing and distribution costs, direct production salaries and salaries of sales staff. These costs are charged to income over the life of the related publication. Indirect costs are expensed as incurred.

Notes to the Consolidated Financial Statements

Note 2 – Significant accounting policies, continued

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets.

Asset	Estimated useful life
Office furniture, equipment and leaseholds	2-10 years

Finite-life intangible assets

Finite-life intangible assets acquired in a business combination are recorded at their fair values. Amortization is calculated over the estimated useful lives of the assets.

Asset	Estimated useful life
Non-competition agreement	5 years
Customer list and relationships	10 years
Creative value of directories	3 years

Finite-life intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Indefinite-life intangible assets

Intangible assets with an indefinite life are not subject to amortization; they are tested annually for impairment to ensure that their fair value is greater than or equal to their carrying value. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair

Notes to the Consolidated Financial Statements

Note 2 – Significant accounting policies, continued

value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations, before extraordinary items and discontinued operations.

Revenue recognition

Revenues are earned through the sale of print and electronic telephone directory advertising, on-line advertising and advertising in specialty publications. Advertising revenues are generally recognized, in accordance with the contractual terms with advertisers, on a monthly basis over the life of the print directory or electronic directory advertising commencing with the delivery or display date, respectively. Amounts billed up front for directories are deferred and recognized over the corresponding life of the related directory.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of accounts receivable and underlying provision for bad debts, property, plant and equipment, intangible assets, goodwill, and the recoverability of prepaid publishing costs. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Derivative financial instruments

Derivative financial instruments are used by the Corporation in the management of its foreign currency exposure. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

The Corporation purchases forward foreign exchange contracts to hedge foreign currency risks on telephone directory printing contracts with suppliers outside Canada, and the related accounts payable. These instruments are not recognized in the consolidated financial statements on inception. Foreign exchange gains and losses on these contracts are recognized as an adjustment of the costs when the purchase is recorded. The portion of the premium or discount on the contracts relating to the period prior to the consummation of the purchase is also recognized as an adjustment of the costs when the purchase is recorded and the portion of the premium or discount relating to the resulting accounts payable is amortized as an adjustment of interest expense over the remaining term of the contract.

Notes to the Consolidated Financial Statements

Note 2 – Significant accounting policies, continued

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current, assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

Note 3 – Acquisition

On January 10, 2006 the Corporation, through its subsidiary The Phone Book Company Partnership, purchased a 100% interest in the directory assets of THE Telephone Book COMPANY Inc. for cash consideration of $0.35 million. THE Telephone Book COMPANY Inc. is an independent telephone directory publisher serving the Alberta communities of Brooks, Medicine Hat, Redcliff and Bow Island. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

(Thousands of dollars)	
Total consideration	$350
Total tangible assets	113
Total intangible assets	244
Total liabilities	(7)
Net assets acquired	$350

Note 4 – Cash and short-term investments

Short-term investments represent funds invested with Holdco and financial institutions at an average interest rate of 4.31% (2005 – 3.00%).

Notes to the Consolidated Financial Statements

Note 5 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2006	2005
			(Thousands of dollars)	
Office furniture, equipment and leaseholds	**$8,457**	**$7,419**	**$1,038**	$1,482

Depreciation and amortization expense is included in the statement of operations as follows:

	2006	2005
	(Thousands of dollars)	
Cost of sales	**$422**	$404
Operating expenses	**527**	490
	$949	$894

Note 6 – Intangible assets

	Cost	Accumulated amortization	Net book value	
			2006	2005
			(Thousands of dollars)	
Non-competition agreement	**$582**	**$280**	**$302**	$360
Customer list and relationships	**808**	**132**	**676**	636
Other	**137**	**26**	**111**	111
	$1,527	**$438**	**$1,089**	$1,107

Other intangible assets include $85,558 (2005 – $85,558) indefinite life intangible assets as at December 31, 2006.

Amortization for the year totaled $262,203 (2005 - $176,170).

Note 7 – Share capital and contributed surplus

	2006	2005
	(Thousands of dollars)	
Share capital		
Authorized - unlimited number of class A common shares		
Issued – 100 shares	**$-**	$-
Contributed surplus	**9,437**	9,437
	$9,437	$9,437

Notes to the Consolidated Financial Statements

Note 8 – Net change in non-cash working capital

	2006	2005
	(Thousands of dollars)	
Accounts receivable	($237)	($91)
Inventory	(37)	(92)
Prepaid publishing costs	(777)	(1,743)
Prepaid expenses	(7)	(32)
Accounts payable and accrued liabilities	17	711
Deferred revenue	(440)	954
	($1,481)	($293)

Note 9 – Commitments and contingencies

The Corporation is committed to future minimum payments under operating leases in each of the next five years as follows:

	(Thousands of dollars)
2007	$199
2008	67
2009	57
2010	39
2011	12

In the normal course of operations, the Corporation may become involved in various claims and litigation. While the final outcome with respect to claims and litigation cannot be predicted with certainty, it is the opinion of management that any resolution would not have a material adverse effect on the Corporation's financial position or results of operations.

Note 10 – Financial instruments

Currency exposure

The Corporation's foreign exchange risk relates primarily to the risk that the market value of accounts payable and the associated expenses will fluctuate due to changes in exchange rates. The Corporation uses a combination of derivative financial instruments to manage foreign exchange risk exposures. The Corporation does not actively trade derivative financial instruments.

Credit risk

The Corporation has a sufficiently diversified customer base that it is not subject to any significant concentration of credit risk. Pursuant to an agreement, the Corporation mitigates its credit risk from the Saskatchewan directories, by selling its receivables to SaskTel for a fee.

Notes to the Consolidated Financial Statements

Note 10 – Financial instruments, continued

Fair value

The carrying amounts of cash and short-term investments, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and dividends payable approximate fair value due to the short-term nature of these financial instruments.

Note 11 – Related party transactions

Included in these financial statements are transactions with Holdco and its subsidiaries, various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2006	2005
	(Thousands of dollars)	
Operating revenues	**$2,147**	$2,215
Operating expenses	**16,180**	14,936
Interest income	**30**	15
Accounts receivable	**1,606**	1,810
Property, plant and equipment	**12**	137
Accounts payable and accrued liabilities	**32**	173

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

Note 12 – Subsequent event

Subsequent to year end, the Corporation, through its subsidiary DirectWest Canada, Inc., purchased all of the outstanding partnership units of The Phone Book Company Partnership owned by MidWest Marketing Inc. for cash consideration of $460,000.